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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

January 21, 1994

Mr. William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, N.W. - Room 222
Washington, DC 20554

Subject: Simplification of the Depreciation Prescription Process
CC Docket No. 92-296

Dear Mr. Caton:

Enclosed please find the original and nine copies of the General Services Administration's Reply Comments for filing in the above-referenced proceeding. Copies of this filing have been served on all interested parties.

Sincerely,

Michael J. Ettner

Michael J. Ettner
Senior Assistant General Counsel
Personal Property Division

Enclosures

cc: International Transcription Service
Accounting and Audits Division

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of Simplification of the Depreciation Prescription Process	Docket No. 92-296

REPLY COMMENTS OF THE GENERAL SERVICES ADMINISTRATION

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Simplification of the Depreciation Prescription Process	)	Docket No. 92-296

REPLY COMMENTS OF THE GENERAL SERVICES ADMINISTRATION

The General Services Administration ("GSA"), on behalf of the Federal Executive Agencies, hereby submits its Reply Comments in response to the Commission's Order Inviting Comments ("OIC"), FCC No. 93-492, released November 12, 1993. This OIC requested comments and replies on the Commission's proposals relating to projection life and future net salvage ranges.

I. INTRODUCTION

On December 10, 1992, the Commission adopted a Notice of Proposed Rulemaking ("NPRM") seeking comments on proposals that would "simplify procedures and reduce associated costs" in its depreciation prescription process.[1]

[1]Simplification of the Depreciation Prescription Process, CC Docket No. 92-296, FCC 92-537, NPRM, released December 29, 1992, para. 1.

GSA and other parties filed responsive Comments on March 10, 1993, and Reply Comments on April 13, 1993. In its Reply Comments, GSA stated that it was clear that commenting local exchange carriers ("LECs") were attempting to use this proceeding to obtain higher depreciation rates.[2] GSA urged the Commission "to reaffirm its responsibility to prescribe depreciation rates which do not result in the recovery of excessive depreciation expense from ratepayers."[3]

On September 23, 1993, the Commission adopted its Depreciation Simplification Order in this proceeding.[4] The Commission decided that its objectives would best be served by the establishment of projection life and future net salvage ranges for price cap LECs. In approving this change, the Commission stated:

> We also agree with the state commissions that this option most adequately addresses both the LECs' desire for a more streamlined and flexible process and the regulators' and consumers' concerns that there continue to be adequate oversight of depreciation, the LECs' largest single expense.... Without adequate oversight, LECs, by taking greater depreciation expense for any given year, could lower their rates of return, potentially moving themselves outside the sharing zone or below the lower adjustment threshold. As long as the backstop is a part of our LEC price cap plan, we must ensure that LECs cannot manipulate that mechanism to ratepayers' detriment.[5]

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[2]Comments of GSA, pp. 2-3.

[3]Id., p. 3.

[4]Simplification of the Depreciation Prescription Process, CC Docket No. 92-296, FCC 93-452, Report and Order, released October 20, 1993 ("Depreciation Simplification Order").

[5]Id., para. 27.

* * *

> Moreover, the competitiveness of the LECs' markets overall are not sufficiently robust to warrant any additional flexibility that might be afforded by other proposed options. Although the LECs face emerging competition in certain services, competitive pressures are not such that we can rely on them to provide an adequate check on LECs' depreciation choices.[6]

As a first step in the implementation of its depreciation simplification measures for price cap LECs, the Commission has proposed projection life and future net salvage ranges for 22 accounts.[7] On December 17, 1993, comments were filed on the Commission's proposals by the following parties:

- The United States Telephone Association ("USTA") and nine individual LECs;
- The National Association of Regulatory Utility Commissioners ("NARUC") and two state commissions; and
- MCI Telecommunications Corporation ("MCI").

In these Reply Comments, GSA will respond to the comments of these parties, and support the proposals made by the Commission.

II. THE COMMISSION'S METHOD OF DETERMINING RANGES IS APPROPRIATE.

In the Depreciation Simplification Order, the Commission described the method it would employ to establish parameter ranges as follows:

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[6] Id., para. 28.

[7] OIC, Appendix.

> Establishing these ranges requires us to consider our objectives in light of the public interest. On the one hand, we wish to make the ranges wide enough to accommodate a significant number, if not all, of the LECs. On the other hand, we must not make the ranges so wide that they would no longer enable us to exercise effective oversight of depreciation rates.[8]
>
> * * *
>
> Therefore, in establishing ranges, we will start with ranges of one standard deviation around an industry-wide mean of basic factors underlying currently prescribed rates. From that point, we will consider other factors such as the number of carriers with basic factors that fall within this initial range and future LEC plans in determining the actual range width for any one account.[9]

In the OIC, the Commission confirmed that it had followed this methodology:

> Thus, in setting ranges, we considered both the specific data enumerated in the Depreciation Simplification Order and our obligation to prescribe reasonable depreciation rates.[10]

The LECs vigorously oppose this methodology, and argue that the Commission should adopt a "forward-looking" procedure.[11] USTA states:

> Depreciation is by its nature forward-looking, and it is intended to anticipate what will happen in the future with assets. The Order's range proposal does not look forward, but relies on data that is already old.... It is no longer valid for

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[8]Depreciation Simplification Order, para. 61.

[9]Id., para. 62.

[10]OIC, para. 7.

[11]See, e.g., Comments of the Bell Atlantic Telephone Companies ("Bell Atlantic"), pp. 3-5; GTE Service Corporation ("GTE"), pp. 4-7.

> regulators to focus their sights on the actual rate of plant retirement as a surrogate for service value when there is rapid technological change and the increased pressure of competition. This continuing linkage of historic rates of plant retirement to depreciation rates continues an outdated rate base-net asset value tie that flies in the face of incentive based regulation.[12]

These arguments should be rejected on both procedural and substantive grounds. In the first place, the OIC is merely implementing the methodology adopted by the Commission in the Depreciation Simplification Order. Opposition to this methodology is properly expressed through Petitions for Reconsideration of the Depreciation Simplification Order, not through comments in response to the OIC.

On a substantive basis, moreover, USTA's argument is totally without merit. In effect, USTA is opposing a straw-man of its own creation. USTA would have the reader believe that current depreciation prescriptions are not "forward-looking" because they are based on historic rates of plant retirement. In fact, for over a decade, the Commission has consistently considered "the forecast for future conditions and company plans" in determining projection lives.[13] As a result of the Commission's forward-looking approach, currently prescribed lives are often a fraction of historic mortality indications. The Missouri PSC states, for example:

> In contrast to the FCC's 25-30 year projection life range for non-metallic accounts, many companies

[12]Comments of USTA, p. 3.

[13]NPRM, para. 4.

> have life indications for non-metallic cable accounts in the 50-100 year range.[14]

The Commission should affirm that its methodology for determining parameter ranges is both appropriate and forward-looking.

III. THE SPECIFIC RANGES PROPOSED BY THE COMMISSION ARE APPROPRIATE.

The ranges proposed by the Commission are endorsed by both NARUC and MCI.[15] NARUC adds:

> Upon review, NARUC finds that these ranges appear to provide flexibility to a substantial number of carriers, thus enabling them to utilize the simplification process.[16]

The LECs, on the other hand, are generally dissatisfied with the Commission's proposals.[17] USTA contends that the Order "evidences unnecessary bias in the lower end of the range for each account's projected lives."[18] More directly stated, USTA believes that the ranges should include shorter lives so the LECs can justify higher depreciation rates. BellSouth candidly states:

> As a result, although the depreciation represcription process may be simplified for these

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[14]Comments of the Missouri Public Service Commission ("Missouri PSC"), p. 4.

[15]Comments of NARUC, p. 4; MCI, p. 2.

[16]Comments of NARUC, p. 4.

[17]See, e.g., Comments of the Southern New England Telephone Company ("SNET"), p. 5; U S West Communications, Inc. ("U S West"), p. 6.

[18]Comments of USTA, p. 2.

> smaller accounts, there will be little substantive change in depreciation for the LECs.[19]

Various LECs also argue that the ranges were inadequate because they result in projection lives and depreciation rates lower than AT&T and other non-LECs.[20]

USTA and the LECs are again attempting to use this proceeding to obtain higher depreciation rates. That is not now, nor was it ever, the purpose of this proceeding. As stated most clearly by the Commission, the purpose of this proceeding is to "simplify procedures and reduce associated costs" in its depreciation prescription process.[21] The Commission's intent in initiating this proceeding was to reduce the burden of depreciation prescription, not change the level of depreciation accruals. Indeed, a substantive increase in the accruals of any carrier as a result of this proceeding would indicate that the Commission had developed a procedure which was sacrificing ratepayer interests for the sake of administrative savings.

Fortunately, that does not appear to be the case. Southwestern Bell ("SWBT"), for example, "recognizes some potential benefit from the Commission's actions as the categories [already] selected represent 59 percent of SWBT's categories."[22] As the

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[19]Comments of BellSouth Telecommunications, Inc. ("BellSouth"), p. 2.

[20]See, e.g., Comments of SNET, p. 4; the Ameritech Operating Companies ("Ameritech"), pp. 4-6.

[21]NPRM, para. 1.

[22]Comments of SWBT, p. 2.

Commission prescribes ranges of additional categories, these benefits will increase.

The Commission should adopt the ranges it has proposed and reject the attempts of various LECs to increase their depreciation accruals as a result of this proceeding.

IV. THE COMMISSION SHOULD ALLOW CARRIERS TO CONTINUE TO USE THE "STREAMLINE STUDY PROCESS" FOR OUT-OF-RANGE ACCOUNTS.

NYNEX reports that the "Streamline Study Process" has been dropped from the Federal Communications Commission Study Guide for 1994 Companies.[23] This process allowed the LECs to provide streamlined information if the account investment was equal to or less than three percent of the total study investment. This process substantially reduced the data analysis required and reduced by half the number of exhibits required for each rate category. Pacific recommends that this process be reinstated.[24]

GSA supports Pacific's recommendation. The "Streamline Study Process" has proven to be a useful and efficient procedure over the years, and in those cases where a LEC's parameters fall outside the Commission's prescribed ranges, it remains of value. The Commission should allow carriers to continue to use this process for out-of-range accounts.

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[23]Comments of New England Telephone and Telegraph Company and New York Telephone Company ("NYNEX"), p. 3.

[24]Comments of Pacific Bell and Nevada Bell ("Pacific"), p. 3.

VI. CONCLUSION

As the agency vested with the responsibility for acquiring telecommunications services for use of the Federal Executive Agencies, GSA supports the Commission's efforts to simplify its depreciation prescription process. In furtherance of this goal, GSA urges the Commission to adopt the projection life and future net salvage ranges it has proposed.

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January 21, 1994

CERTIFICATE OF SERVICE

I, Michael J. Ethner, do hereby certify that copies of the foregoing "Reply Comments of the General Services Administration" were served this 21st day of January, 1994, by hand delivery or postage paid to the following parties:

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